

Japan Banking-as-a-Service (BaaS) Market Assessment, By Component [Platform, Service], By Type [API-based BaaS, Cloud-based BaaS], By Enterprise Size [Large Enterprises, Small and Medium Enterprises], By End-user [Banks, Financial Institutions, Nonbank Financial Companies (NBFCs), Others], By Region, Opportunities and Forecast, FY2018-FY2032F

Market Report | 2024-09-30 | 150 pages | Market Xcel - Markets and Data

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Report description:

Japan banking-as-a-service (BaaS) market is projected to witness a CAGR of 16.71% during the forecast period FY2025-FY2032, growing from USD 285.68 million in FY2024 to USD 983.43 million in FY2032. Factors such as proactive attempts by banks to improve digital capabilities and streamline service offerings drive the increasing adoption of BaaS platforms. Supportive stance taken by the government of Japan has been important in this regard, favorable regulatory policies encourage the creation and integration of advanced financial technologies. This regulatory environment encourages innovation and ensures that financial services are competitive, servicing the consumers' needs.

Banking-as-a-Service is the ability for businesses to inject banking functions, like the facilitation of payments and account management, into their service offering enabled by third-party technology platforms. It connects via APIs with banking systems to provide financial products without managing the underlying infrastructure. In 2023, Fujitsu decided to absorb and merge Fujitsu Cloud Technologies Limited, which specializes in public cloud services, in the form of an absorption-type merger. This will expedite the introduction of advanced technologies for cloud services that provide transparency, security, and reliability.

The other significant reason for the market's growth in Japan is the rising interest rate for consumers, helping them reach further and diversify service portfolios that make strategic sense for small finance companies. In this way, using a BaaS platform offers the opportunity to expand banking services for regions where traditional banking structures are not as prevalent. By tapping BaaS for power, the companies can offer more inclusive and contextual financial solutions that narrow the gap between urban and rural financial services, ultimately serving the cause of growth in this market. These are driven by regulatory support, technological

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advancement, and strategic adoption by FIs, driving the growth of the BaaS market in Japan.

Growing Adoption of Open Banking to Drive Market Growth

An increase in the traction for open banking adoption in Japan is one of the factors driving the growth of the BaaS market. Open banking allows banks and third-party providers to share data more transparently and be more connected using APIs, thus allowing financial services to integrate seamlessly into a wide variety of applications. This will, in turn, provide more interoperability for companies to offer more customer-centric banking products and services without the need to create convoluted banking systems. Therefore, enhanced diversity and accessibility of financial services have repercussions in the form of BaaS demand growth. Further, this is fueled by the supportive regulatory environment in Japan, which looks forward to innovation and ensures that data sharing is secure and efficient.

The trends in the performance of the BaaS market in Japan have been remarkable as established financial institutions and new entrants are adopting open banking to boost sophisticated financial services and widen their market reach. In 2023, Vector Consulting Group, one of the leading domestic management consulting firms, entered a capital and business alliance with TIS Inc., one of Japan's top technology companies. In the process, TIS Inc. has agreed to buy a 20 percent stake in Vector. The move underlines a strategic partnership to support expansion into emerging markets such as Indonesia, Japan, and Thailand.

Surge in BaaS Adoption to Accelerate the Market Growth

The increased adoption of BaaS platforms is significantly driving Japan BaaS market. The integration of BaaS reduces or eliminates the need for businesses to build, maintain, and operate complex banking infrastructures, therefore reducing costs and speeding up the delivery of services. With the increasing demand for digital financial solutions, companies are taking advantage of BaaS to extend their offerings and create superior customer experiences. The flexibility and scalability of BaaS platforms make it easier for businesses to rapidly deploy innovative financial products and services. In Japan, favorable regulatory measures and an emphasis on open banking by the government further amplify the appeal of BaaS, creating an enabling environment for market expansion. In 2023, NEC Corporation acquired a 50.1 percent stake in Japan Asset Management Inc. Following this acquisition, Japan Asset Management will become a consolidated subsidiary of the NEC Group. The integration will connect expertise from asset management advice given by JAM with state-of-the-art technologies, including AI from NEC, to enhance customer experiences further and bring more value into the realm of asset management and financial education.

Banks Segment to Dominate the Japan Banking-as-a-Service (BaaS) Market Share

In the Japanese BaaS market, banks are expected to lead the end-user segment, owing to developed infrastructure, know-how in handling regulatory issues, and the fact that banks enjoy the customer's trust. Banks have strong advantages in adopting the BaaS platform, as they can easily utilize their existing networks and know-how of finance to offer advanced integrated banking services. With robust infrastructure and acquaintance with stringent regulations, banks are in a better position to provide comprehensive and secure financial solutions using BaaS.

In addition, banks are equally well-placed to provide services that range from payments and account management to lending, deeply integrated with the BaaS offerings. Thus, as adoption increases, banks will be set to steer the market share and, consequently, standards and innovation in the sector. This will be driven and supported by its capability of providing reliable, scalable, and compliant financial services for individuals and business customers. In July 2024, Finastra Global PAYplus Japanese, a game-changing payment hub solution, enabled banks to address all dimensions of the payment transformation challenge. With an unrivaled breadth of payment services, ranging from high-value payments to mass payments and real-time payments, everything is integrated into one complete solution.

Central Region Dominates Japan Banking-as-a-Service (BaaS) Market Share

The Central region, including Tokyo and its surroundings, is expected to lead the Japan banking-as-a-service (BaaS) market. The region hosts the central economic and financial hub of the country, representing a high concentration of major banks, financial institutions, and technology enterprises. Tokyo has the reputation of being one of the world's largest financial centers due to its modern infrastructure and well-developed financial base. Therefore, large investments in Fintech, added to a progressive regulatory environment by the city, form an ideal background against which BaaS platforms are adopting and expanding at an incredible speed.

Indeed, the Kanto region, with its wide network of financial services, innovative technology, and permissive policies, is a significant region for BaaS to grow and take the lead in driving the market's growth. The region continues to strengthen its

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dominance as it attracts and develops new, pioneering financial technologies and services to spearhead the evolution of Japanese banking.

In 2024, NTT DATA executed a capital tie-up with ALLOYED LIMITED to strengthen the technological capability of NTT DATA XAM Technologies. This will help develop solutions to the customers' challenge of designing and manufacturing highly technological components and support business development on a greater scale.

Future Market Scenario (FY2025 - FY2032F)

-□As BaaS becomes established in central urban areas, such as Tokyo, it will gradually expand to unserved and rural areas, further enhancing financial inclusion within the country.

-□The Japanese government is expected to continue promoting open banking and digital financial innovations by creating a regulatory framework which encourages the adoption of BaaS while ensuring security and compliance.

-□Most BaaS platforms will be integrated with emerging technologies, such as artificial intelligence, blockchain, and IoT, extending features to encompass personalized financial advice and enhancing transactional security.

Key Players Landscape and Outlook

Competition in Japan BaaS market is influenced by sophisticated service providers, supplemented by a rising number of new entrants. Such competitiveness is justified by the fact that the region necessitates more adaptability towards diversified regional and customer-specific preferences with strict national banking controls. Over the past couple of years, new entrants in the market have risen greatly, development substantially supported by strategic collaborations taking place between global banks and small financial institutions. These partnerships have successfully ushered in speedy scaling and diversification into the offering of BaaS. As BaaS platforms are highly configurable, new entrants can design their offer and service different client needs in unique ways, particularly when the clients are smaller organizations. This flexibility allows new entrants to compete by offering customized solutions that best fit specific market needs, therefore leading to a dynamic and constantly changing BaaS environment in the Japanese market.

In June 2024, GMO Payment Gateway, Inc. carried out a welfare service, allowing workers to start charging digital money anytime. Immediately, a part of the amount calculated through the actual work, the amount can be charged to PPIH Group's original electronic money, majica. The amount of charging is later deducted from the person's salary afterwards.

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*Companies mentioned above DO NOT hold any order as per market share and can be changed as per information available during research work.

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